



TACIR



Annual Report on Fiscal Capacity

Presley Powers
Senior Research Associate

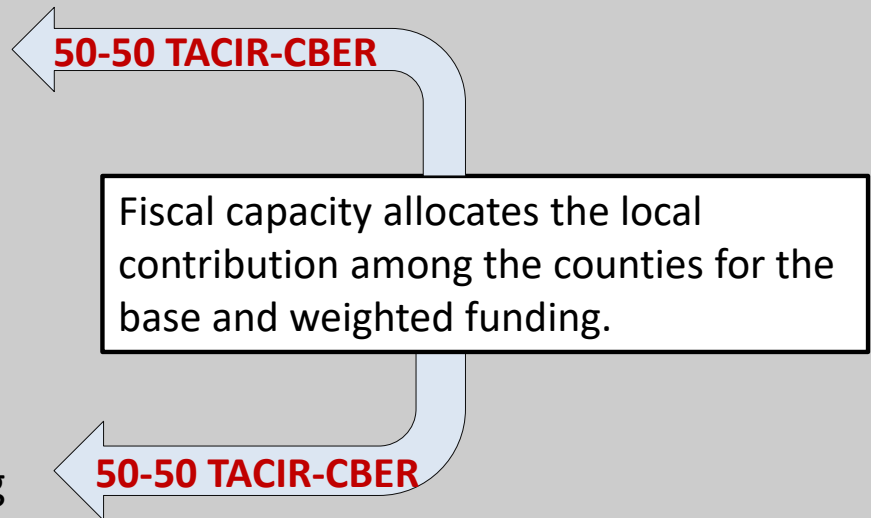
May 29, 2024

www.tn.gov/tacir



TISA Funding Formula Overview

- 1. BASE FUNDING:** A fixed dollar amount of funding per student, which for fiscal year 2024-25 is set to \$7,075 per student.
- 2. WEIGHTED FUNDING:** TISA provides funding based on individual needs. Weights are presented as a percentage of the base funding amount as specified in Tennessee Code Annotated, Section 49-3-105.



TISA Funding Formula Overview

- 3. DIRECT FUNDING:** TISA provides direct funding allocations for students enrolled in public charter schools and certain students participating in high-impact, strategic programming.
- 4. OUTCOMES FUNDING:** TISA provides funding based on student outcomes (e.g., 3rd and 4th grade literacy, 8th grade math, ELA TCAP scores, ACT scores, and high school industry credentials)

Direct and outcomes funding are not equalized and are 100% funded by the state.



Fiscal Capacity

Answers the question

How much must each local government contribute?

Measures

The potential ability of local governments to fund education from their own taxable sources, relative to their cost of providing services.

County-level model

All systems within each county pay the same percentage of their TISA allocation.



Method

- A set of averages drawn from actual tax bases, income, etc. is compared with actual revenue.
- The amount of weight to give each factor is determined by estimating the statistical relationship between them.
- Multiple regression analysis
 - a common statistical method used to understand relationships among factors for a wide range of issues
 - simultaneously compares all variables for all counties to determine how much weight to give each factor
- Weights are multiplied by the factors for each county to estimate potential local revenue for each of the 95 counties.
- Actual revenue is used as a control.



Factors Used in TACIR's Fiscal Capacity Regression

- **Own-Source Revenue Per Student:** The actual amount of money local governments raise to fund their schools divided by enrollment (average daily membership (ADM)), the control factor that keeps the estimates within the bounds of what local governments actually do.
- **Sales Tax Base Per Student:** The locally taxable sales for the county-area divided by ADM. This is a measure of the local ability to raise revenue.
- **Equalized Property Assessment Per Student:** The total assessed property value for the county-area, equalized across counties using appraisal-to-sales ratios, and then divided by ADM. This is also a measure of the local ability to raise revenue.



Factors Used in TACIR's Fiscal Capacity Regression (cont.)

- **Equalized Residential and Farm Assessment Divided by Total Equalized Assessment (Tax Burden):** The measure of the resident tax burden is the total taxable value of all residential and farm property divided by the total taxable value of all property in the county. A proxy for a county's potential ability to export taxes through business activity—the higher this number, the lower the level of business activity and the higher the risk of heavy tax burdens on county residents.
- **Per Capita Income:** A proxy for county residents' ability to pay for education and for all other local revenue not accounted for by property or sales taxes.
- **Service Responsibility:** It's measured by dividing the number of students in public schools by the entire population as reported by the US Census Bureau to use as a reflection of spending needs. The larger the number of public school students per 100 residents, the greater the fiscal burden for each taxpayer.



Effect of Changes in Fiscal Capacity Factors

The relationship between fiscal capacity and specific variables (other things being equal)

Factor Increases	Effect on Fiscal Capacity
Property Tax Base Increases	Fiscal Capacity Increases ↑
Sales Tax Base Increases	Fiscal Capacity Increases ↑
Per Capita Income Increases	Fiscal Capacity Increases ↑
Residential/Farm Share of Property Increases	Fiscal Capacity Decreases ↓
Service Responsibility Increases	Fiscal Capacity Decreases ↓



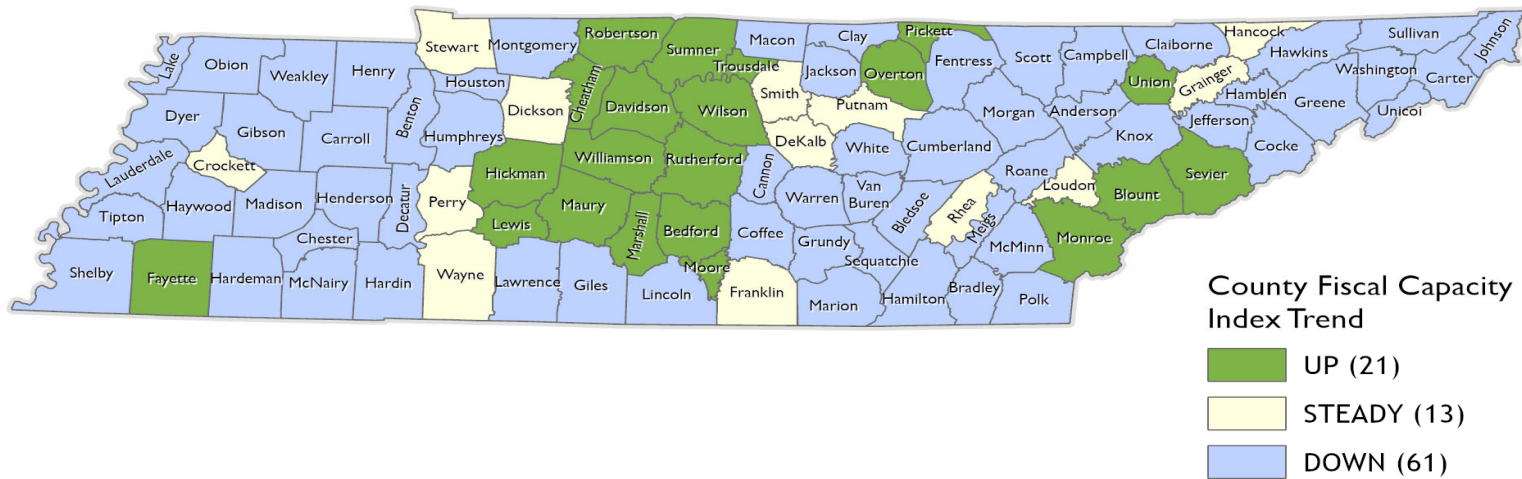
County Trends in Share of Statewide Fiscal Capacity

- The change in a county's share of statewide fiscal capacity depends on its growth in fiscal capacity relative to the state's overall growth in fiscal capacity.

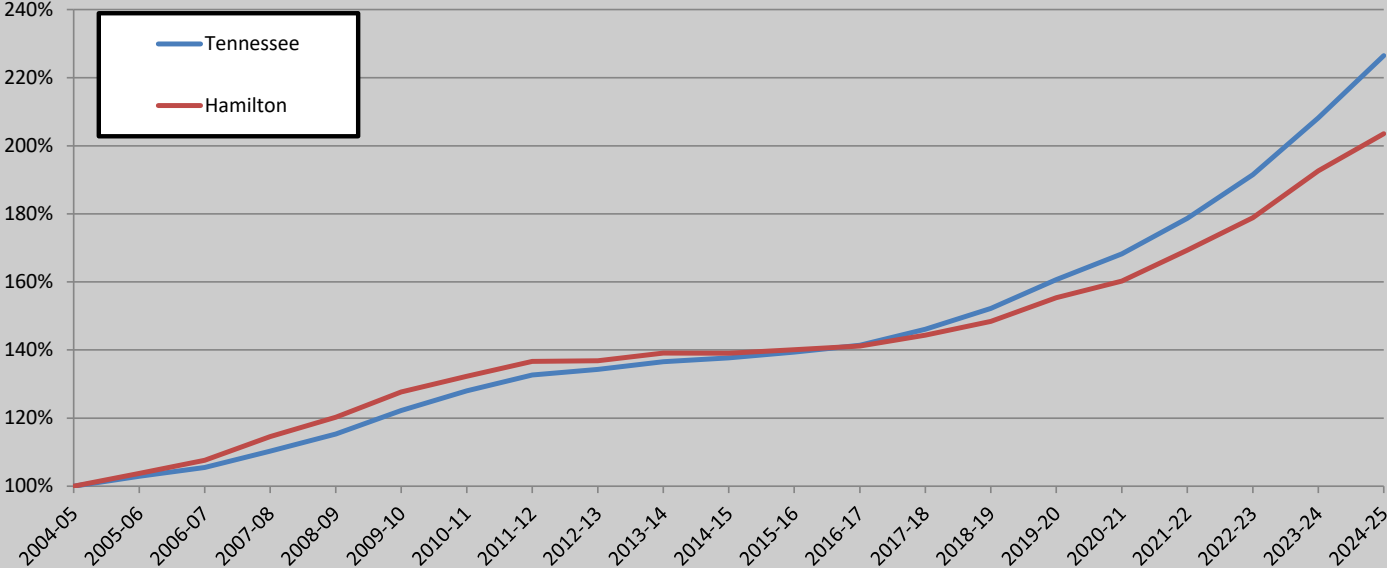


Long Term Fiscal Capacity Trends by County

5-year average compared with 15-year average



Combined Tax Base per Student (Sales and Property) as a Percentage of 2004-05 Combined Tax Base per Student
*2004-05 to 2024-25 Models**



As fiscal capacity for a county decreases, the other 94 counties are responsible for a greater share of the TISA local contribution.



Updates to the Variables Used in the TACIR Model

- The Bureau of Economic Analysis (BEA) made a change in its methodology for estimating personal income, which is used in the index's per capita income variable.
- Unemployment benefits, which are counted as income, are now estimated based on the number of unemployed people in a county rather than on state or local offices reporting to BEA the amount they distributed in unemployment benefits, which were not being timely reported in many cases.
- Unemployment compensation benefits decreased by 98% from 2020 to 2022 following decreases in unemployment rates and federal aid, making per capita personal income variable return to a pre-pandemic norm.



Recommendations for Changes to the TACIR Fiscal Capacity Model

- TACIR recommends replacing the TEPs data in its model with the IDB assessment data. CBER already includes this data in its model.
- Since it was first developed, TACIR's model has included tax equivalent payments (TEPS) to capture the assessed value of property subject to PILOT agreements.
- Initially this data was available from the Comptroller's Office but has not been updated since 1995.



Other Considerations for the TACIR Fiscal Capacity Model

- Counting Virtual School Students
- Monitoring the Service Responsibility Factor
- Transitioning to a school-system-level model



Virtual School Students

- Enrollment in virtual schools affects fiscal capacity.
- All else being equal, as enrollment in virtual schools increases, the fiscal capacity indexes of counties that operate virtual schools decreases, increasing their state funding while decreasing state funding for counties with less, or no, enrollment in virtual schools.
- In terms of fiscal capacity, virtual school students increase service responsibility without contributing to other factors such as the sales and property tax bases.
- A “virtual school” is defined in Tennessee law as “a public school in which the school uses technology in order to deliver a significant portion of instruction to its students via the internet in a virtual or remote setting.” Tennessee Code Annotated, Section 49-16-203(2).
- For the purpose of fiscal capacity, students are counted as enrolled in the school system where the virtual school is located.
- Fiscal capacity is calculated at the county level so each school system within the same county is treated as though they have the same fiscal capacity.



Virtual Schools in Tennessee

- Local boards of education may admit students from outside their respective local school district at any time (Tennessee Code Annotated, Section 49-6-3104) and participation in a virtual education program by a student shall be at the discretion of the school system in which the student is enrolled or zoned to attend (Tennessee Code Annotated, Section 49-16-105).
- Of the 58 virtual schools in Tennessee
 - 27 only accept students from the school system,
 - 12 accept students from surrounding areas in addition to students from the school system, and
 - 19 allow students from across the state.

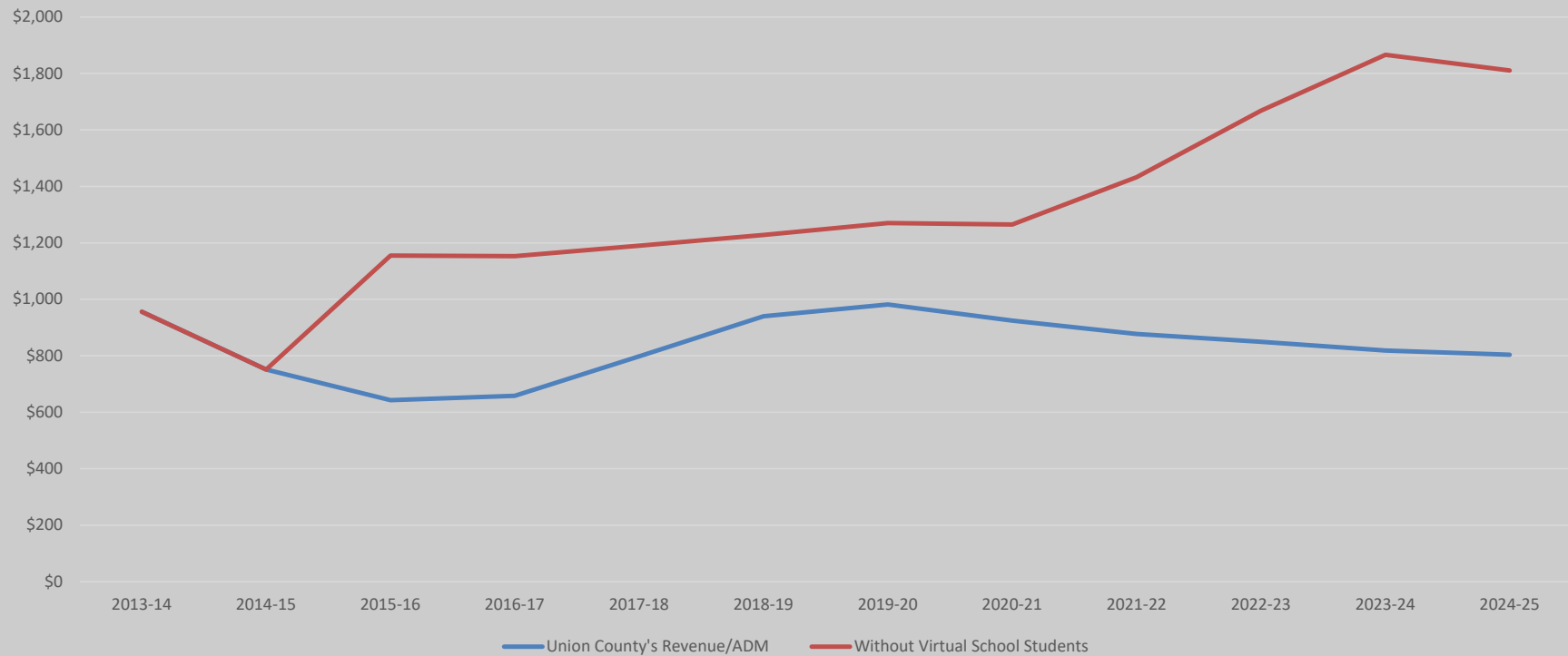


Counties with Virtual Schools

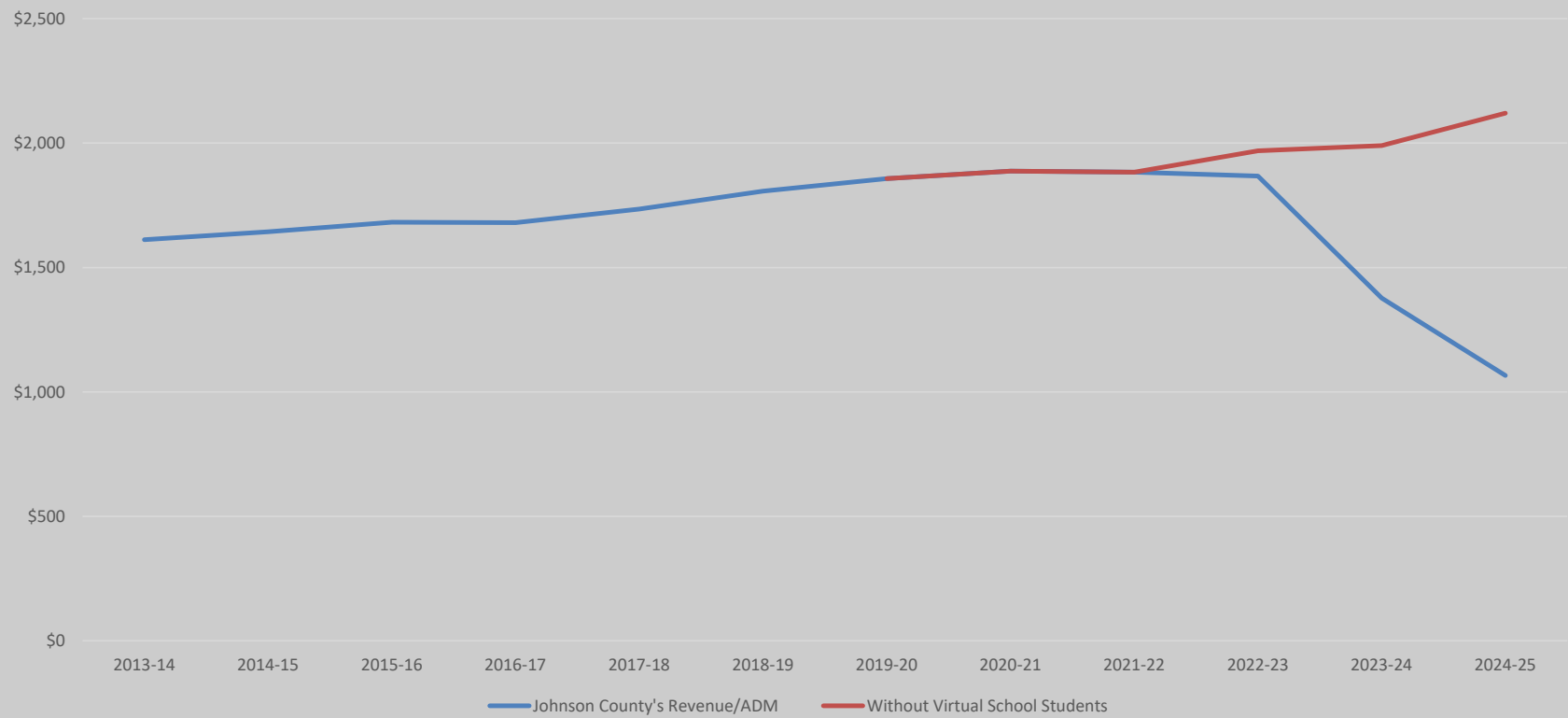
- Currently, Union and Johnson Counties have the largest statewide virtual school enrollment in the state.
- All else being equal, the effect of including their virtual school students in the fiscal capacity calculations decreases fiscal capacity, which increases state funding for Union and Johnson counties and decreases state funding for the other 93 counties.



Union County's Local Revenue Per Student



Johnson County's Local Revenue Per Student



Monitoring the Service Responsibility Factor

- The influence of the service responsibility variable (average daily membership divided by population) has decreased to the point where, in some years, it unintentionally increases fiscal capacity for counties with greater service responsibilities and decreases their state funding.



Transitioning to a School-System-Level Model

- A system-level model would take into account intra-county disparities, such as counties' relative lack of access to unshared tax bases and the concentration of commercial and industrial tax bases within cities, which leaves counties with less ability to raise local revenue for county school systems when compared with city school systems and special school districts in the same county
- Calculating fiscal capacity at the school-system-level can decrease these disparities while adhering to principles of taxpayer equity.

